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BEFORE THE ARIZONA CORPORATION COMMISSION

MARC SPITZER
Chairman

JIM IRVIN
Commissioner

WILLIAM A. MUNDELL
Commissioner

MIKE GLEASON
Commissioner

JEFF HATCH-MILLER
Commissioner

Arizona Corporation Commission

DOCKETED

JUN 25 2003

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CA

IN THE MATTER OF THE APPLICATION)
OF THE ARIZONA ELECTRIC DIVISION)
OF CITIZENS COMMUNICATIONS)
COMPANY TO CHANGE THE CURRENT)
PURCHASED POWER AND FUEL)
ADJUSTMENT CLAUSE RATE, TO)
ESTABLISH A NEW PURCHASED)
POWER AND FUEL ADJUSTMENT)
CLAUSE BANK, AND TO REQUEST)
APPROVED GUIDELINES FOR THE)
RECOVERY OF COSTS INCURRED IN)
CONNECTION WITH THE ENERGY)
RISK MANAGEMENT INITIATIVES.)

DOCKET NO. E-01032C-00-0751

IN THE MATTER OF THE APPLICATION)
OF CITIZENS COMMUNICATIONS)
COMPANY, ARIZONA GAS DIVISION,)
FOR A HEARING TO DETERMINE THE)
FAIR VALUE OF ITS PROPERTIES FOR)
RATEMAKING PURPOSES, TO FIX A)
JUST AND REASONABLE RATE OF)
RETURN THEREON, AND TO APPROVE)
RATE SCHEDULES DESIGNED TO)
PROVIDE SUCH RATE OF RETURN.)

DOCKET NO. G-01032A-02-0598

1 IN THE MATTER OF THE JOINT)
2 APPLICATION OF CITIZENS)
3 COMMUNICATIONS COMPANY AND)
4 UNISOURCE ENERGY CORPORATION)
5 FOR THE APPROVAL OF THE SALE OF)
6 CERTAIN ELECTRIC UTILITY AND)
7 GAS UTILITY ASSETS IN ARIZONA,)
8 THE TRANSFER OF CERTAIN)
9 CERTIFICATES OF CONVENIENCE)
10 AND NECESSITY FROM CITIZENS)
11 COMMUNICATIONS COMPANY TO)
12 UNISOURCE ENERGY CORPORATION,)
13 THE APPROVAL OF THE FINANCING)
14 FOR THE TRANSACTIONS AND OTHER)
15 RELATED MATTERS.)

DOCKET NO. E-01933A-02-0914
DOCKET NO. E-01032C-02-0914
DOCKET NO. G-01032A-02-0914

10 **JOINT APPLICANTS' EXCEPTIONS**
11 **TO**
12 **RECOMMENDED OPINION AND ORDER**

12 UniSource Energy Corporation, on behalf of itself, Tucson Electric Power
13 Company and UniSource's designated affiliates, and Citizens Communications Company
14 (collectively "Joint Applicants") support and commend the Administrative Law Judge's
15 Recommended Opinion and Order ("ROO"). Nevertheless, Joint Applicants respectfully
16 request that the Arizona Corporation Commission (the "Commission") consider one
17 exception and two clarifications to the ROO.

18 The Settlement Agreement between the Commission Staff ("Staff") and the Joint
19 Applicants provides that 60% of any savings from a renegotiation of the June 1, 2001
20 Purchase Power Contract between Citizens and Pinnacle West Capital Corporation
21 ("PWCC Contract") would go to customers and 40% of any such savings would go to
22 UniSource. The ROO modifies this 60/40 split so that UniSource only receives 10% of
23 any renegotiated savings. (ROO at 13:9 to 14:2; 25:25 to 26:1; 28:22-25; and 31:14-17).
24 Joint Applicants respectfully submit that such a significant change should not be made to a
25 single component in the Settlement Agreement.
26

1 The Settlement Agreement was the culmination of many discussions and bargaining
2 regarding multiple issues. To change a single component, rather than viewing the
3 settlement as a whole, would upset the balance achieved by the parties through the
4 settlement process. As in most complex negotiations, throughout the negotiations, the
5 parties weighed the issues and, where acceptable, compromised positions initially taken in
6 order to reach agreement. One needs to look no further than the content of the Joint
7 Application and the elements of this Settlement Agreement to find examples. UniSource
8 conceded to numerous modifications, including: (1) a \$10 million permanent reduction to
9 the gas rate base; (2) restrictions in the financing provisions; and (3) a three-year
10 moratorium on the filing of a gas or electric rate case (this is particularly noteworthy
11 because Citizens' base electric rates have not increased since January 1997).

12 This settlement as a whole benefits Citizens' customers in substantial ways.
13 Citizens' electric customers will not be asked to pay for any increases in power costs
14 through the closing of this transaction, because UniSource has agreed to forfeit its right to
15 pursue the undercollected Purchase Power and Fuel Adjustor Clause ("PPFAC") balance
16 from Citizens' customers. This amount is estimated to be approximately \$135 million by
17 the end of July 2003. A further benefit of the settlement is that Citizens' gas customers
18 will have use of approximately \$30.7 million of facilities and Citizens' electric customers
19 will have use of approximately \$93.6 million of facilities that they will never have to pay
20 for because UniSource has agreed not to seek recovery of the negative acquisition
21 adjustments.

22 Rather than isolating a single component of the proposed settlement, the overall
23 significant beneficial outcome should be the key consideration. Therefore, Joint
24 Applicants urge the Commission to view the 60/40 sharing of the savings from a
25 renegotiated PWCC Contract as part and parcel of the entire settlement package.
26

1 In addition to this sole exception, the Joint Applicants suggest two other
2 modifications to the ROO for clarification.

3 On page 32, line 8, UniSource is ordered to file copies of franchises. Pursuant to
4 the Settlement Agreement, this ordering provision should also include "licenses and other
5 similar authorizations" (*see* paragraph 9 of the Settlement Agreement).

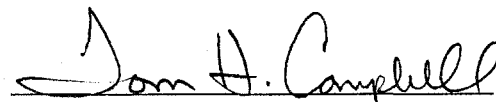
6 Joint Applicants also suggest that the following ordering provision be added:

7 IT IS FURTHER ORDERED that ACC Decision No. 60480,
8 Attachment A, Condition 20, is amended pursuant to A.R.S. §40-252
9 to prohibit TEP from issuing dividends to UniSource in an amount that
10 comprises more than 75% of TEP's earnings, until such time as TEP's equity
capitalization reaches 40% of total capital.

11 A similar provision (without reference to the prior ACC Decision) should be added for
12 ElecCo and GasCo pursuant to the ROO discussion on page 21, lines 19-23.

13
14 RESPECTFULLY SUBMITTED this 25th day of June, 2003.

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16 

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21 ORIGINAL AND seventeen (17) copies
22 of the foregoing hand-delivered
this 25th day of June, 2003, to:

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1 COPY of the foregoing hand-delivered
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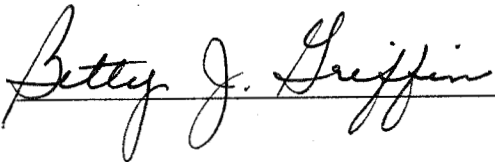
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